REPORT OF THE AUDIT OF THE LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS www.auditor.ky.gov

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY FISCAL COURT

June 30, 2009

The Auditor of Public Accounts has completed the audit of the Letcher County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions, based on our audit of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Letcher County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$10,043,430 as of June 30, 2009. The fiscal court had unrestricted net assets of \$3,899,025 in its governmental funds as of June 30, 2009, with total net assets of \$9,916,667. In its enterprise fund, total net cash and cash equivalents were \$95,394 with total net assets of \$126,763. The fiscal court had total debt principal as of June 30, 2009 of \$4,364,959 with \$398,420 due within the next year.

Deposits:

On May 8, 2009, \$2,219,251 of the fiscal court's deposits was uninsured and unsecured. The County Judge/Executive and Depository Institution had a written agreement stating the Depository Institution would provide adequate collateral to protect the County's deposits. Even though this written agreement existed, the Depository Institution did not provide enough collateral.

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CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jim Ward, Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Letcher County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States, and the <u>Audit Guide for Fiscal Court Audits</u> issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Letcher County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Letcher County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated May 20, 2010 on our consideration of Letcher County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

May 20, 2010

LETCHER COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Jim Ward County Judge/Executive

Bobby Lewis Magistrate
Archie Banks Magistrate
Codell Gibson Magistrate
Keith Adams Magistrate
Wayne Fleming Magistrate

Other Elected Officials:

Harold Bolling County Attorney

Don McCall Jailer

Winston Meade County Clerk

Margaret Nichols Circuit Court Clerk

Danny Webb Sheriff

Randy Hall Property Valuation Administrator

Wallace Bolling, Jr. Coroner

Appointed Personnel:

Eddie Meade Deputy Judge/Pro Tem

Phillip Hampton County Treasurer

D. J. Frazier Finance Officer

Brandon Conley 911 Administrator

John Adams Road Foreman

Johnny Ray Williams Solid Waste Coordinator



LETCHER COUNTY STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

LETCHER COUNTY STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

	Primary Government							
			Busi	ness-Type				
		Activities	A	ctivities		Totals		
ASSETS								
Current Assets:								
Cash and Cash Equivalents	\$	3,899,025	\$	95,394	\$	3,994,419		
Asset Held For Resale		205,970				205,970		
Total Current Assets		4,104,995		95,394		4,200,389		
Noncurrent Assets:								
Capital Assets - Net of Accumulated								
Depreciation								
Land and Land Improvements		1,923,500				1,923,500		
Buildings		5,731,444				5,731,444		
Equipment		122,566				122,566		
Vehicles and Equipment		1,018,480	31,369			1,049,849		
Infrastructure		1,380,641			1,380,641			
Total Noncurrent Assets		10,176,631		31,369		10,208,000		
Total Assets		14,281,626		126,763		14,408,389		
LIABILITIES								
Current Liabilities:								
Financing Obligations		263,420				263,420		
Bonds Payable		135,000			135,000			
Total Current Liabilities		398,420			_	398,420		
Noncurrent Liabilities:								
Financing Obligations		64,539				64,539		
Bonds Payable		3,902,000				3,902,000		
Total Noncurrent Liabilities		3,966,539				3,966,539		
Total Liabilities		4,364,959				4,364,959		
NET ASSETS								
Invested in Capital Assets,								
Net of Related Debt		6,017,642	17,642 31,369		6,049,011			
Unrestricted				95,394	3,994,419			
Total Net Assets	\$	9,916,667	\$ 126,763			\$ 10,043,430		



LETCHER COUNTY STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

LETCHER COUNTY STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

		Program Revenues Received							
Functions/Programs Reporting Entity		Expenses		Charges for Services		Operating Grants and Contributions		Capital Grants and Contributions	
Primary Government:									
Governmental Activities:									
General Government	\$	2,928,418	\$		\$	154,017	\$	22,500	
Protection to Persons and Property		1,109,858		395,580		424,706			
General Health and Sanitation		1,836,853		861,782				1,792,881	
Social Services		724,948				171,674			
Recreation and Culture		303,205							
Roads		1,854,590				5,671,599			
Airports		1,436							
Interest on Long-Term and Short-Term Debt		174,087							
Capital Projects		1,703,781							
Total Governmental Activities		10,637,176		1,257,362		6,421,996		1,815,381	
Business-type Activities:									
Jail Canteen		154,978		155,501					
Total Business-type Activities	_	154,978		155,501					
Total Primary Government	\$	10,792,154	\$	1,412,863	\$	6,421,996	\$	1,815,381	

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Motel Taxes
In Lieu of Taxes
Other Taxes
Excess Fees

Miscellaneous Revenues

Total General Revenues and Transfers Change in Net Assets Net Assets - Beginning

Net Assets - Ending

LETCHER COUNTY STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS For The Year Ended June 30, 2009 (Continued)

Net (Expenses) Revenues and Changes in Net Assets

and Changes in Net Assets Primary Government							
	vernmental Activities		Totals				
\$	(2,751,901)	\$		\$	(2,751,901)		
	(289,572)				(289,572)		
	817,810				817,810		
	(553,274)				(553,274)		
	(303,205)				(303,205)		
	3,817,009				3,817,009		
	(1,436)				(1,436)		
	(174,087)				(174,087)		
	(1,703,781)	-			(1,703,781)		
	(1,142,437)				(1,142,437)		
			523		523		
			523		523		
	(1,142,437)		523		(1,141,914)		
	(1,142,437)		323		(1,141,714)		
	534,486				534,486		
	177,766				177,766		
	197,116				197,116		
	31,362				31,362		
	5,069				5,069		
	484,397				484,397		
	73,766				73,766		
	624,364				624,364		
	2,128,326				2,128,326		
	985,889		523		986,412		
	8,930,778		126,240		9,057,018		
\$	9,916,667	\$	126,763	\$	10,043,430		



LETCHER COUNTY BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

LETCHER COUNTY BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund		Road Fund		Local Government Economic Assistance Fund		Pı Co	Public coperties rporation 1999 ond Fund
ASSETS								
Cash and Cash Equivalents	\$	720,541	\$	1,242,527	\$	1,102,464	\$	467,022
Total Assets		720,541		1,242,527	_	1,102,464		467,022
FUND BALANCES Reserved for:								
Encumbrances		17,269		35,076		69,620		
Debt Service								467,022
Horse Trail Project						40,000		
Unreserved: General Fund		703,272						
Special Revenue Funds				1,207,451		992,844		
Total Fund Balances	\$	720,541	\$	1,242,527	\$	1,102,464	\$	467,022

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Changes In Net Assets:

Total Fund Balances

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.

Depreciation

Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.

Financing Obligations

Bonds

Net Assets Of Governmental Activities

LETCHER COUNTY BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS June 30, 2009 (Continued)

Non- Major Funds	Go	Total vernmental Funds
\$ 366,471	\$	3,899,025
366,471		3,899,025
44,221		166,186 467,022 40,000
322,250		703,272 2,522,545
\$ 366,471	\$	3,899,025
		•

\$ 3,899,025

12,948,209 (2,771,578)

(121,989) (4,037,000)

\$ 9,916,667



LETCHER COUNTY STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

LETCHER COUNTY STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

	General Fund	 Road Fund]	Local overnment Economic ssistance Fund	Pi Co	Public roperties orporation 1999 ond Fund
REVENUES						
Taxes	\$ 1,389,603	\$	\$	31,362	\$	
In Lieu Tax Payments		5,069				
Excess Fees	73,766					
Licenses and Permits	24,540					
Intergovernmental	274,770	1,222,088		6,026,025		128,000
Charges for Services	1,056,928					
Miscellaneous	444,241	55,265		8,996		
Interest	10,405	17,268		12,847		6,293
Total Revenues	3,274,253	1,299,690		6,079,230		134,293
EXPENDITURES						
General Government	963,715	28,934		101,323		
Protection to Persons and Property	216,970	51,324		164,811		
General Health and Sanitation	619,516	,		1,146,700		
Social Services	23,161			50,858		
Recreation and Culture	-, -			720,201		
Roads		1,592,250		847,200		
Airports		-,		1,436		
Debt Service -				,		
Principal						119,000
Interest						174,087
Capital Projects	175,109			1,528,672		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Administration	791,045	419,251		153,789		
Total Expenditures	2,789,516	2,091,759		4,714,990		293,087
Excess (Deficiency) of Revenues Over Expenditures Before Other						
Financing Sources (Uses)	 484,737	 (792,069)		1,364,240		(158,794)
Other Financing Sources (Uses)				700.000		
Lease Proceeds - KACo		270 120		500,000		
Financing Obligation Proceeds	550,000	379,139				107.006
Transfers From Other Funds	550,000	550,000		(1.175.400)		195,006
Transfers To Other Funds	 (745,006)	 (550,000)		(1,175,400)		105.006
Total Other Financing Sources (Uses)	 (195,006)	 379,139		(675,400)		195,006
Net Change in Fund Balances	289,731	(412,930)		688,840		36,212
Fund Balances - Beginning	430,810	1,655,457		413,624		430,810
Fund Balances - Ending	\$ 720,541	\$ 1,242,527	\$	1,102,464	\$	467,022

LETCHER COUNTY STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS For The Year Ended June 30, 2009 (Continued)

	Funds		Funds
\$	4,162	\$	1,425,127
Ψ	4,102	Ψ	5,069
			73,766
			24,540
	750,101		8,400,984
	36,977		1,093,905
	38,316		546,818
	6,043		52,856
	835,599		11,623,065
-	033,377		11,020,000
			1,093,972
	659,536		1,092,641
	308,051		2,074,267
	639,110		713,129
			720,201
			2,439,450
			1,436
			119,000
			174,087
			1,703,781
	344,125		1,708,210
	1,950,822		11,840,174
	(1,115,223)		(217,109)
			500,000
	1 155 100		379,139
	1,175,400		2,470,406
	1 175 400		(2,470,406)
	1,175,400		879,139
	60,177		662,030
	306,294		3,236,995
\$	366,471	\$	3,899,025

Non-

Major

Total

Governmental



LETCHER COUNTY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

LETCHER COUNTY RECONCILIATION OF THE STATEMENT OF REVENUES,

EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

Net Change in Fund Balances - Total Governmental Funds	\$ 662,030
Amounts reported for governmental activities in the Statement of	
Activities are different because Governmental Funds report	
capital outlays as expenditures. However, in the Statement of	
Activities the cost of those assets are allocated over their	
estimated useful lives and reported as depreciation expense.	
Capital Outlay	1,007,944
Depreciation Expense	(387,896)
Purchase Of Asset Held For Resale	205,970
The issuance of long-term debt (e.g. bonds, financing obligations) provides	
current financial resources to governmental funds, while repayment of principal	
on long-term debt consumes the current financial resources of Governmental	
Funds. These transactions, however, have no effect on net assets.	
Financing Obligation Proceeds	(379,139)
Bond Issuance	(500,000)
Lease and bond principal payments are expensed in the Governmental Funds	
as a use of current financial resources.	
Financing Obligations Principal Amount	248,980
Bond Payments	 128,000
Change in Net Assets of Governmental Activities	\$ 985,889



LETCHER COUNTY STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

LETCHER COUNTY STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

	Business-Type Activities - Enterprise Fund Jail Canteen Fund	
Assets		
Current Assets:		
Cash and Cash Equivalents	\$	95,394
Total Current Assets		95,394
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment		34,743
Less Accumulated Depreciation		(3,374)
Total Noncurrent Assets		31,369
Total Assets		126,763
Net Assets		
Invested in Capital Assets,		
Net of Related Debt		31,369
Unrestricted		95,394
Total Net Assets	\$	126,763



LETCHER COUNTY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUND - MODIFIED CASH BASIS

LETCHER COUNTY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUND - MODIFIED CASH BASIS

	Ac	Business-Type Activities - Enterprise Fund		
	C	Jail Canteen Fund		
Operating Revenues				
Canteen Receipts	\$	155,501		
Total Operating Revenues		155,501		
Operating Expenses Cost of Sales		85,792		
Educational and Recreational		2,471		
Personnel Costs		18,416		
Sales Tax		6,350		
Rent		319		
Depreciation		3,374		
Total Operating Expenses		116,722		
Operating Income (Loss)		38,779		
Nonoperating Revenues (Expenses) Inmate Refunds		(38,256)		
Total Nonoperating Revenues		(30,230)		
(Expenses)		(38,256)		
Change In Net Assets		523		
Total Net Assets - Beginning		126,240		
Total Net Assets - Ending	\$	126,763		



LETCHER COUNTY STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

LETCHER COUNTY STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

	Business-Type Activities - Enterprise Fund		
	Jail Canteen Fund		
Cash Flows From Operating Activities			
Receipts From Customers	\$	155,501	
Cost of Sales		(85,792)	
Educational and Recreational		(2,471)	
Personnel Costs		(18,416)	
Sales Tax		(6,350)	
Rent		(319)	
Net Cash Provided By			
Operating Activities		42,153	
Cash Flows From Noncapital			
Financing Activities			
Inmate Refunds on Accounts		(38,256)	
Net Cash Provided By Noncapital			
Financing Activities		(38,256)	
Cash Flows From Capital and			
Related Financing Activities			
Capital Asset Purchased		(34,743)	
Net Cash (Used) Provided By			
Capital and Related Financing			
Activities		(34,743)	
Net Increase (Decrease) in Cash and Cash			
Equivalents		(30,846)	
Cash and Cash Equivalents - July 1, 2008		126,240	
Cash and Cash Equivalents - June 30, 2009	\$	95,394	

LETCHER COUNTY
STATEMENT OF CASH FLOWS PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

	Ac Ent	Business-Type Activities - Enterprise Fund			
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	_	Jail anteen Fund			
Operating Income (Loss) Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	\$	38,779			
Depreciation Expense		3,374			
Net Cash Provided By Operating Activities	\$	42,153			

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LETCHER COUNTY NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Letcher County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of GASB 14, there are no discretely presented component units which merit consideration as part of the reporting entity.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Letcher County Public Properties Corporation

The Letcher County Public Properties Corporation is a legally separate entity established for the purpose of renovating the County's courthouse and detention center through issuance of long-term debt in the corporation's name. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Letcher County Public Properties Corporation. Financial information for the Letcher County Public Properties Corporation is blended within Letcher County's financial statements and can be found in the Public Properties Corporation 1999 Bond Fund.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Letcher County Elected Officials Not Part Of Letcher County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Letcher County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government–wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount through November 30, due at face value through December 31, delinquent at January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - This fund is used to account for funds which may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation 1999 Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the fiscal court. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following nonmajor funds: Jail Fund, Senior Citizens Fund, Forestry Fund, and Abandoned Mines Land Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Senior Citizens Fund, Forestry Fund, and Abandoned Mines Land Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund:

The General Obligation Bond Fund, Regional Jail Corporation, and Justice Center Expansion Corporation are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) statements or interpretations issued after March 30, 1989, unless the Government Accounting Standards Board (GASB) adopts such FASB statements or interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset

The County's capitalization policy is as follows:

	-	italization nreshold	Useful Life		
	11	nresnoia	(Years)		
Land Improvements	\$	12,500	10-60		
Buildings and Building Improvements	\$	25,000	10-75		
Machinery and Equipment	\$	2,500	3-25		
Vehicles	\$	2,500	3-25		
Infrastructure	\$	20,000	10-50		

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Jail Canteen Fund. The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve expenditures made from the Jail Canteen Fund.

A formal budget is not adopted for the Public Properties Corporation 1999 Bond Fund. The Department for Local Government does not require the fiscal court to report or budget the Public Properties Corporation 1999 Bond Fund.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County entered into a written agreement with the depository institution and met requirement (a), (b), and (c) stated above.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on May 8, 2009, public funds were exposed to custodial risk due to inadequate collateralized deposits in accordance with the security agreement as follows:

• Unsecured and uncollateralized - \$2,219,251

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government:	Reporting Entity						
	Beginning			Ending			
Governmental Activities:	Balance	Increases	Decreases	Balance			
Capital Assets Not Being Depreciated:							
Land and Land Improvements	\$1,563,500	\$ 360,000	\$	\$ 1,923,500			
Total Capital Assets Not Being	_ + -,,	_ +		_ + -,>,			
Depreciated Depreciated	1,563,500	360,000		1,923,500			
Capital Assets, Being Depreciated:							
Buildings	7,699,546			7,699,546			
Equipment	68,332	70,576		138,908			
Vehicles and Road Equipment	1,133,338	501,098		1,634,436			
Infrastructure	1,475,549	76,270		1,551,819			
Total Capital Assets Being		 _					
Depreciated	10,376,765	647,944		11,024,709			
Less Accumulated Depreciation For:							
Buildings	(1,792,562)	(175,540)		(1,968,102)			
Equipment	(7,381)	(8,961)		(16,342)			
Vehicles and Equipment	(462,219)	(153,737)		(615,956)			
Infrastructure	(121,520)	(49,658)		(171,178)			
Total Accumulated Depreciation	(2,383,682)	(387,896)		(2,771,578)			
Total Capital Assets, Being							
Depreciated, Net	7,993,083	260,048		8,253,131			
Governmental Activities Capital		-					
Assets, Net	\$9,556,583	\$ 620,048	\$ 0	\$10,176,631			

Depreciation expense was charged to functions of the Governmental Activities as follows:

Governmental Activities:

General Government	\$	126,236
Protection to Persons and Property		17,217
General Health and Sanitation		41,386
Social Services		28,998
Recreation and Culture		22,580
Roads		151,479
		20-00-
Total Depreciation Expense - Governmental Activities	_\$_	387,896

Note 3. Capital Assets (Continued)

Primary Government (Continued):	Reporting Entity						
Business-Type Activities:	Beginnin Balance	_	In	creases	Decreas	es	Ending alance
Dusiness Type Tectivities.	Bulance			Creases	Decreus	<u>C</u>	 dianee
Capital Assets, Being Depreciated:							
Vehicle			\$	34,743			\$ 34,743
Total Capital Assets Being							
Depreciated				34,743			 34,743
Less Accumulated Depreciation For:							
Vehicle				(3,374)			 (3,374)
Total Accumulated Depreciation				(3,374)			 (3,374)
Total Capital Assets, Being							
Depreciated, Net				31,369			 31,369
Business-Type Activities Capital							
Assets, Net	\$	0	\$	31,369	\$	0	\$ 31,369

Depreciation expense was charged to functions of the Business-Type Activities as follows:

Business-Type Activities:

Protection to Persons and Property	\$ 3,374
Total Depreciation Expense - Business Type Activities	\$ 3,374

Note 4. Short-term Debt

A. 2008 KACo Truck Lease

On August 4, 2008, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$205,970 with Kentucky Association of Counties (KACo) Leasing Trust for the purchase of two trucks. The lease agreement requires one principal payment of \$205,970 by May 20, 2010, with monthly interest payments due on the 20th of each month. The interest rate for the lease was 3.94%. The county purchased two heavy trucks to use in the 2009 fiscal year. After one year the trucks were to be auctioned off with the proceeds to be used to pay the outstanding principal of the lease. The trucks were not auctioned off at the end of one year. However, the Letcher County Fiscal Court intends to auction the trucks and use the proceeds to pay the outstanding principal. As of June 30, 2009, the principal balance outstanding was \$205,970.

B. 2007 KACo Truck Lease

On July 20, 2007, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$197,800 with Kentucky Association of Counties (KACo) Leasing Trust for the purchase of two trucks. The lease agreement required one principal payment of \$197,800 by July 20, 2008, with monthly interest payments due on the 20th of each month. The interest rate was 5.085%. The principal on this lease was paid in July 2008 as required by the lease agreement and the balance was zero as of June 30, 2009.

C. Changes In Short-term Liabilities

	Beginning Balance	A	dditions	Re	eductions		Ending Balance	_	ue Within One Year
Governmental Activities: Financing Obligations	\$ 197,800	\$	205,970	\$	197,800	\$	205,970	\$	205,970
Governmental Activities Short-term Liabilities	\$ 197,800	\$	205,970	\$	197,800	_\$_	205,970	\$	205,970

Note 5. Long-term Debt

A. Revenue Bonds, Series 1997

On January 18, 1999, the Public Properties Corporation issued bonds in order to renovate the courthouse and detention center. On January 1, 1999, the Letcher County Public Properties Corporation and the Administrative Office of the Courts (AOC) entered into a lease agreement for the purpose of obtaining office rental space for AOC.

The premises leased by AOC will provide revenues to pay a portion of the bond principal and interest. Under the terms of the lease, the AOC has agreed to pay directly to the paying agents' bank their prorated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet a portion of the debt service requirement for the bonds.

Note 5. Long-term Debt (Continued)

A. Revenue Bonds, Series 1997 (Continued)

The use allowance payment commences with occupancy by AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate AOC to do so. As of June 30, 2009, the principal balance remaining was \$3,546,000. Future bond payments are as follows:

	Governmental Activities						
Fiscal Year Ended				_			
June 30		Principal	Interest				
2010	\$	125,000	\$	168,435			
2011		131,000		162,498			
2012		137,000		156,277			
2013		145,000		149,768			
2014		153,000		142,880			
2015-2019		885,000		598,310			
2020-2024		1,138,000		365,180			
2025-2027		832,000		80,275			
	\$	3,546,000	\$	1,823,623			

B. Recreation Center Lease

On September 29, 2008, the Fiscal Court entered into an agreement with Kentucky Association of Counties (KACo) Leasing Trust for the construction of a recreation center. The lease agreement requires monthly interest payments and annual principal payments. The principal was \$500,000 and the interest rate is variable. As of June 30, 2009, the principal balance remaining is \$491,000. Future principal and interest payment requirements are:

	Governmental Activities									
Fiscal Year Ended										
June 30	I	Principal		Interest						
2010	\$	10,000	\$	18,200						
2011		10,000		18,433						
2012		11,000		18,080						
2013		11,000		17,624						
2014		11,000		17,208						
2015-2019		64,000		79,205						
2020-2024		79,000		65,757						
2025-2029		96,000		49,715						
2030-2034		116,000		29,362						
2035-2037		83,000		6,173						
				_						
	\$	491,000	\$	319,757						

Note 5. Long-term Debt (Continued)

C. Caterpillar Tractor Lease

On July 14, 2008, the Fiscal Court entered into an agreement with Caterpillar Financial Services for the purchase of a tractor. The agreement requires monthly payments in the amount of \$1,971 for 36 months at an interest rate of 5.75%. As of June 30, 2009, the principal balance remaining is \$44,804. Future principal and interest requirements are:

	Governmental Activities						
Fiscal Year Ended							
June 30	P	rincipal	Interest				
2010	\$	21,759	\$	1,895			
2011		23,045		610			
	\$	44,804	\$	2,505			

D. Caterpillar Backhoe Lease

On July 14, 2008, the Fiscal Court entered into an agreement with Caterpillar Financial Services for the purchase of a backhoe. The agreement requires monthly payments in the amount of \$2,056 for 36 months at an interest rate of 5.75%. As of June 30, 2009, the principal balance remaining is \$46,505. Future principal and interest requirements are:

	Governmental Activities						
Fiscal Year Ended							
June 30	P	rincipal	Interest				
_		_					
2010	\$	22,586	\$	2,085			
2011		23,919		752			
	\$	46,505	\$	2,837			

E. Caterpillar Excavator Lease

On July 14, 2008, the Fiscal Court entered into an agreement with Caterpillar Financial Services for the purchase of an excavator. The agreement requires monthly payments in the amount of \$1,221 for 36 months at an interest rate of 5.75%. As of June 30, 2009, the principal balance remaining is \$30,679. Future principal and interest requirements are:

	Governmental Activities						
Fiscal Year Ended							
June 30	P	nterest					
2010	\$	13,105	\$	1,546			
2011		13,948		703			
2012		3,626		38			
	\$	30,679	\$	2,287			

Note 5. Long-term Debt (Continued)

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Revenue Bonds Financing Obligations	\$ 3,665,000	\$ 500,000 173,169	\$ 128,000 51,180	\$ 4,037,000 121,989	\$ 135,000 57,450
Governmental Activities Long-term Liabilities	\$ 3,665,000	\$ 673,169	\$ 179,180	\$ 4,158,989	\$ 192,450

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must met the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2009, Letcher County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

LETCHER COUNTY BUDGETARY COMPARISON SCHEDULES Required Supplementary Information - Modified Cash Basis

LETCHER COUNTY BUDGETARY COMPARISON SCHEDULES Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND							
	Budgeted Amounts				Actual Amounts, (Budgetary		Fina	ance with al Budget ositive
		Original		Final		Basis)	(N	egative)
REVENUES								
Taxes	\$	1,315,000	\$	1,315,000	\$	1,389,603	\$	74,603
Excess Fees		10,280		10,280		73,766		63,486
Licenses and Permits		25,200		25,200		24,540		(660)
Intergovernmental Revenue		48,993		174,343		274,770		100,427
Charges for Services		1,155,000		1,155,000		1,056,928		(98,072)
Miscellaneous		213,960		213,960		444,241		230,281
Interest		7,400		7,400		10,405		3,005
Total Revenues		2,775,833		2,901,183		3,274,253		373,070
EXPENDITURES								
General Government		786,831		1,019,779		963,715		56,064
Protection to Persons and Property		170,000		223,370		216,970		6,400
General Health and Sanitation		915,200		817,189		619,516		197,673
Social Services		10,000		23,621		23,161		460
Debt Service		240,610		195,610		195,006		604
Capital Projects		37,000		177,350		175,109		2,241
Administration		745,892		1,004,774		791,045		213,729
Total Expenditures		2,905,533		3,461,693		2,984,522		477,171
Excess (Deficiency) of Revenues Over Expenditures Before Other								
Financing Sources (Uses)		(129,700)		(560,510)		289,731		850,241
OTHER FINANCING SOURCES (USES)								
Transfers From Other Funds		129,700		129,700		550,000		420,300
Transfers To Other Funds						(550,000)		(550,000)
Total Other Financing Sources (Uses)		129,700		129,700		0		(129,700)
Net Changes in Fund Balance				(430,810)		289,731		720,541
Fund Balance - Beginning		_		430,810		430,810		
Fund Balance - Ending	\$	0	\$	0	\$	720,541	\$	720,541

Reconciliation To Statement Of Revenues, Expenditures, And Changes In Fund Balances - Governmental Funds - Modified Cash Basis:

Total Expenditures - Budgetary Comparison Schedule	\$ 2,984,522
Less: Transfers to Public Properties Corporation 1999 Bond Fund	(195,006)
Total Expenditures - Statement of Revenues, Expenditures And Changes	
In Fund Balances - Governmental Funds - Modified Cash Basis	\$ 2,789,516
	_
Total Other Financing Sources (Uses) - Budgetary Comparison Schedule	
Less: Transfers to Public Properties Corporation 1999 Bond Fund	(195,006)
Total Other Financing Sources (Uses) - Statement of Revenues, Expenditures	
And Changes In Fund Balances - Governmental Funds - Modified Cash Basis	\$ (195,006)

LETCHER COUNTY BUDGETARY COMPARISON SCHEDULES Required Supplementary Information - Modified Cash Basis For The Year Ended June 30, 2009 (Continued)

	ROAD FUND							
					Actual		Variance with	
						Amounts,	Final Budget	
		Budgeted	Am	ounts	(E	Budgetary		Positive
		Original		Final		Basis)	(]	Negative)
REVENUES								
In Lieu Tax Payments		950		950		5,069	\$	4,119
Intergovernmental Revenue	\$	1,239,349	\$	1,239,349	\$	1,222,088		(17,261)
Miscellaneous		2,065		2,065		55,265		53,200
Interest		26,000		26,000		17,268		(8,732)
Total Revenues		1,268,364		1,268,364		1,299,690		31,326
EXPENDITURES								
General Government		27,300		29,800		28,934		866
Protection to Persons and Property		61,500		61,500		51,324		10,176
Roads		609,264		1,416,264		1,213,111		203,153
Administration		440,600		1,286,557		419,251		867,306
Total Expenditures		1,138,664		2,794,121		1,712,620		1,081,501
Excess (Deficiency) of Revenues Over								
Expenditures Before Other								
Financing Sources (Uses)		129,700		(1,525,757)		(412,930)		1,112,827
OTHER FINANCING SOURCES (USES)								
Transfers From Other Funds						550,000		550,000
Transfers To Other Funds		(129,700)		(129,700)		(550,000)		(420,300)
Total Other Financing Sources (Uses)		(129,700)		(129,700)		(223,333)		129,700
		<u> </u>						
Net Changes in Fund Balance				(1,655,457)		(412,930)		1,242,527
Fund Balance - Beginning				1,655,457		1,655,457		
Fund Balance - Ending	\$	0	\$	0	\$	1,242,527	\$	1,242,527

Reconciliation To Statement Of Revenues, Expenditures, And Changes In Fund Balances - Governmental Funds - Modified Cash Basis:

Total Expenditures - Budgetary Comparison Schedule Add: Capital Outlay of Lease Proceeds Not Budgeted	\$ 1,712,620 379,139
Total Expenditures - Statement of Revenues, Expenditures And Changes In Fund Balances - Governmental Funds - Modified Cash Basis	\$ 2,091,759

LETCHER COUNTY BUDGETARY COMPARISON SCHEDULES Required Supplementary Information - Modified Cash Basis For The Year Ended June 30, 2009 (Continued)

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND						
			Actual	Variance with			
			Amounts,	Final Budget			
		Amounts	(Budgetary	Positive			
	Original	Final	Basis)	(Negative)			
REVENUES							
Taxes	\$ 31,300	\$ 31,300	\$ 31,362	\$ 62			
Intergovernmental Revenue	2,832,500	5,778,698	6,026,025	247,327			
Miscellaneous	4,000	4,000	8,996	4,996			
Interest	12,000	12,000	12,847	847			
Total Revenues	2,879,800	5,825,998	6,079,230	253,232			
EXPENDITURES							
General Government	86,280	110,980	101,323	9,657			
Protection to Persons and Property	179,930	195,330	164,811	30,519			
General Health and Sanitation	278,250	1,275,450	1,146,700	128,750			
Social Services	37,000	55,500	50,858	4,642			
Recreation and Culture	173,900	877,700	720,201	157,499			
Roads	847,200	847,200	847,200				
Airports	1,000	2,000	1,436	564			
Capital Projects	17,164	1,539,573	1,528,672	10,901			
Administration	107,064	613,677	153,789	459,888			
Total Expenditures	1,727,788	5,517,410	4,714,990	802,420			
Excess (Deficiency) of Revenues Over							
Expenditures Before Other							
Financing Sources (Uses)	1,152,012	308,588	1,364,240	1,055,652			
OTHER FINANCING SOURCES (USES)							
Governmental Leasing Act Receipts		500,000	500,000				
Transfers To Other Funds	(1,222,212)	(1,222,212)	(1,175,400)	46,812			
Total Other Financing Sources (Uses)	(1,222,212)	(722,212)	(675,400)	46,812			
Net Changes in Fund Balances	(70,200)	(413,624)	688,840	1,102,464			
Fund Balances - Beginning	70,200	413,624	413,624				
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,102,464	\$ 1,102,464			

LETCHER COUNTY NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LETCHER COUNTY COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information

June 30, 2009

LETCHER COUNTY COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information

June 30, 2009

	Jail Fund	Senior Litizens Fund	restry Fund	Total Non-Major Governmental Funds		
ASSETS						
Cash and Cash Equivalents	\$ 251,859	\$ 109,058	\$ 5,554	\$	366,471	
Total Assets	 251,859	 109,058	 5,554		366,471	
FUND BALANCES						
Reserved:						
Encumbrances	17,422	26,799			44,221	
Unreserved:						
Special Revenue Funds	 234,437	82,259	 5,554		322,250	
Total Fund Balances	\$ 251,859	\$ 109,058	\$ 5,554	\$	366,471	



LETCHER COUNTY COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information

LETCHER COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information

		Jail Fund	C	Senior Sitizens Fund	restry Fund
REVENUES					
Taxes	\$		\$		\$ 4,162
Intergovernmental		327,085		171,674	
Charges for Services		36,977			
Miscellaneous		18,218		20,058	
Interest		4,966		1,077	
Total Revenues		387,246		192,809	4,162
EXPENDITURES					
Protection to Persons and Property		657,390			2,146
General Health and Sanitation				56,669	
Social Services				639,110	
Administration		197,192		146,933	
Total Expenditures		854,582		842,712	2,146
Excess (Deficiency) of Revenues Over					
Expenditures		(467,336)		(649,903)	 2,016
Other Financing Sources (Uses)					
Transfers From Other Funds		520,000		655,400	
Total Other Financing Sources (Uses)		520,000		655,400	
Net Change in Fund Balances		52,664		5,497	2,016
Fund Balances - Beginning		199,195		103,561	3,538
Fund Balances - Ending	\$	251,859	\$	109,058	\$ 5,554
1 4114 24141144 2114115	Ψ	201,007		107,000	 2,551

LETCHER COUNTY COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information For The Year Ended June 30, 2009 (Continued)

	Total
Abandoned	Non-Major
Mine Lands	Governmental
Fund	Funds
\$	\$ 4,162
251,342	750,101
	36,977
40	38,316
	6,043
251,382	835,599
	659,536
251,382	308,051
	639,110
	344,125
251,382	1,950,822
	(1,115,223)
	1,175,400
	1,175,400
	60,177
	306,294
\$ 0	\$ 366,471



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Jim Ward, Letcher County Judge/Executive Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 20, 2010. Letcher County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Letcher County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Letcher County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Letcher County Fiscal Court's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards (Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Letcher County's financial statements as of the year ended June 30, 2009 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed - May 20, 2010

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

Judge/Executive

County Treasurer